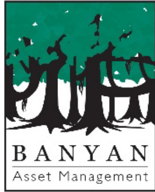

"Toppy"

Market Commentary – March 2026

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Written February 28, 2026 – www.banyan-asset.com

The advance estimate of Gross Domestic Product (GDP) shows that the output of goods and services produced by labor and property located in the U.S. grew at an annual rate of 1.4% in the fourth quarter of 2025. This is much lower than 4.4% in 2025 Q3. The components of the 2025 Q4 GDP number are: consumer spending +1.58 percentage points, investment +0.66 percentage point, net exports +0.08 percentage point, and government spending -0.90 percentage point. The sum of these numbers equals +1.42%. Consumer spending was strong with services (contributing +1.59 percentage points), but weak with goods (contributing -0.01 percentage point). The large contraction in government spending was caused by a -1.15 percentage point contribution from federal spending, offset by a +0.25 percentage point contribution from state and local spending. Some of the reduced federal government spending resulted from the government shutdown (October 1 to November 12), but some of the reduction was also likely due to federal spending cutbacks put in place by the Trump administration.

The Federal Open Market Committee (FOMC) is telegraphing its resistance to lowering the target federal funds rate during the final two meetings under the leadership of embattled Chair Jerome Powell. According to CME FedWatch, there is a 93.6% probability that the FOMC will leave its benchmark federal funds rate in a target range of 3.50% to 3.75% on March 18 and a 76.2% probability they will leave it alone on April 29. President Trump has argued that the U.S. should pay the lowest interest rates in the world, and he has publicly slammed Powell with the nickname "Too Late" for being too slow to cut rates. Powell's term as Fed Chair ends on May 15. Interestingly, Trump's nomination for Fed Chair, Kevin Warsh, has yet to be approved by the Senate.

Technical factors of the market are bearish (more supply than demand), while fundamentals are fairly priced – therefore, we are mildly bearish on the market. YCharts reports $294.00 as a forecast for S&P 500 earnings per share (EPS) through December 31, 2026, which implies a price-to-earnings (P/E) ratio of 23.4 with the S&P 500 at 6,879. The earnings yield (E/P) of 4.27% represents fair value relative to the 10-year U.S. Treasury note yield of 3.97% (a yield spread of 0.30%). The eight largest companies in the S&P 500 make up $21.8 trillion of the $61.4 trillion index market capitalization with a weighted P/E of 36.3. If 35.5% of the index has a P/E of 36.3, then 64.5% of the index has a P/E of 16.3 for the overall P/E to be 23.4. A P/E of 16.3 is an E/P of 6.13%, which is attractively priced compared to the 10-year Treasury note yield of 3.97% (a yield spread of 2.16%).

The S&P 500 continued its trading range between 6,800 and 7,000 in February, building pressure for its next explosive move. There is formidable resistance at 7,000. Should that ceiling be penetrated, a rush of buying should propel the index to significant new highs. At lower levels, support should be found at 6,800 (lower end of 2026 trading range), 6,550 (200-day moving average, November 2025 low), and 6,100 (February 2025 high). Because the index has been essentially flat since late October 2025, the 50-day moving average has stagnated. Meanwhile, the 200-day moving average is rushing higher to converge with the 50-day. When coupled with the observation that declines in February were on higher volume ("distribution days"), the chart pattern is looking toppy. The U.S. bombing of Iran this weekend, leading to the surprise death of Ayatollah Khamenei, could be the catalyst to break the trading range.

The mega-cap technology stock bubble continues to deflate, as money rotates into other previously unloved areas. In the first two months of 2026, total return indexes have performed as follows: S&P 400 Mid Cap +8.3% (growth +10.0%, value +6.6%); S&P 600 Small Cap +7.9% (value +8.0%, growth +7.9%); and S&P 500 Large Cap +0.7% (value +4.8%, growth -2.9%). The impact of capital rotating from mega-cap technology to small and mid-cap stocks could be tremendous. There are still potentially years' worth of imbalances to unwind. The bias of mega-cap tech has been deeply entrenched in the expectations of market participants for so long, especially index investors. The unwinding may hurt.